

Audited Financial Statements

**Township of Kimball
St. Clair County, Michigan**

*Year ended March 31, 2006
with Report of Independent Auditors*

Township Officials

| | |
|------------|---|
| Supervisor | Thomas L. Portis |
| Clerk | Joyce Shaffer |
| Treasurer | Brian E. Anglebrandt |
| Trustees | Becky J. Wrubel Edmond Kilroy Paula S. (Sue) Halifax Debbie Cooley |

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--|---|----------------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name KIMBALL TOWNSHIP | County ST. CLAIR |
| Fiscal Year End MARCH 31, 2006 | Opinion Date AUGUST 29, 2006 | Date Audit Report Submitted to State SEPTEMBER 30, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☐ ☒ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|--------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) ANDREWS HOOPER & PAVLIK P.L.C. | | Telephone Number 248-340-6050 | |
| Street Address 3201 UNIVERSITY DR., SUITE 350 | | City AUBURN HILLS | State Zip MI 48326 |
| Authorizing CPA Signature <i>Roger Hitchcock CPA</i> | | Printed Name ROGER HITCHCOCK | License Number 14461 |

Township of Kimball

CONTENTS

| | |
|--|----|
| Independent Auditors' Report | 1 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 2 |
| Statement of Activities | 3 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 4 |
| Reconciliation of Fund Balances to the Statement of Net Assets | 5 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 7 |
| Proprietary Funds: | |
| Statement of Net Assets | 8 |
| Statement of Revenues, Expenses and Changes in Net Assets | 9 |
| Statement of Cash Flows | 10 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Assets | 11 |
| Notes to the Financial Statements | 12 |
| Required Supplemental Information | |
| Budgetary Comparison Schedule - General and Special Revenue Fund Types | 29 |



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Independent Auditors' Report

To the Township Officials
Township of Kimball
Kimball, Michigan 48074

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Township of Kimball, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Township of Kimball, as of March 31, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township of Kimball has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

The budgetary comparison information listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
August 29, 2006

Township of Kimball
Statement of Net Assets
March 31, 2006

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Current assets | | | |
| Cash and equivalents | \$ 1,567,543 | \$ 4,473,013 | \$ 6,040,556 |
| Accounts receivable | 76,710 | 304,986 | 381,696 |
| Special assessments receivable | | 3,497,037 | 3,497,037 |
| Prepaid expenses | 30,552 | | 30,552 |
| Unamortized discount on bonds - net | | 61,565 | 61,565 |
| Due from other funds | 94,030 | 34,528 | 128,558 |
| Total current assets | <u>1,768,835</u> | <u>8,371,129</u> | <u>10,139,964</u> |
| Capital assets | | | |
| Property, plant and equipment | 1,982,013 | 14,007,933 | 15,989,946 |
| Less accumulated depreciation | <u>(1,652,453)</u> | <u>(3,854,066)</u> | <u>(5,506,519)</u> |
| Net capital assets | <u>329,560</u> | <u>10,153,867</u> | <u>10,483,427</u> |
| Total assets | <u>2,098,395</u> | <u>18,524,996</u> | <u>20,623,391</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | 40,520 | 193,543 | 234,063 |
| Accrued expenses | 31,646 | 4,543 | 36,189 |
| Accrued interest | | 69,312 | 69,312 |
| Due to other funds | 9,536 | 91,115 | 100,651 |
| Current portion of long-term liabilities | | 320,000 | 320,000 |
| Total current liabilities | <u>81,702</u> | <u>678,513</u> | <u>760,215</u> |
| Long-term liabilities | | | |
| Bonds payable | | 3,660,000 | 3,660,000 |
| Compensated absences | 13,497 | | 13,497 |
| Total long-term liabilities | <u>13,497</u> | <u>3,660,000</u> | <u>3,673,497</u> |
| Total liabilities | <u>95,199</u> | <u>4,338,513</u> | <u>4,433,712</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 329,560 | 6,173,867 | 6,503,427 |
| Restricted for construction code authority | 49,394 | | 49,394 |
| Unrestricted | 1,624,242 | 8,012,616 | 9,636,858 |
| Total net assets | <u>\$ 2,003,196</u> | <u>\$ 14,186,483</u> | <u>\$ 16,189,679</u> |

See accompanying notes

Township of Kimball
Statement of Activities
Year ended March 31, 2006

| | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---------------------|---|---|-----------------------------|----------------------|
| | Expenses | Program Revenues Charges for Services | Primary Government | | Total |
| | | | Governmental Activities | Business-type Activities | |
| Functions and programs | | | | | |
| Governmental activities | | | | | |
| Legislative | \$ 93,971 | | \$ (93,971) | | \$ (93,971) |
| General government | 372,580 | \$ 191,945 | (180,635) | | (180,635) |
| Public safety | 583,490 | 267,674 | (315,816) | | (315,816) |
| Public works | 369,413 | | (369,413) | | (369,413) |
| Culture and recreation | 45,017 | | (45,017) | | (45,017) |
| Capital outlay | 23,262 | | (23,262) | | (23,262) |
| Interest | 1,795 | | (1,795) | | (1,795) |
| Total governmental activities | 1,489,528 | 459,619 | (1,029,909) | | (1,029,909) |
| Business-type activities | | | | | |
| Water and sewer | 1,665,250 | 1,591,288 | | \$ (73,962) | (73,962) |
| Total primary government | <u>\$ 3,154,778</u> | <u>\$ 2,050,907</u> | <u>(1,029,909)</u> | <u>(73,962)</u> | <u>(1,103,871)</u> |
| General revenues | | | | | |
| Property taxes | | | 274,387 | | 274,387 |
| State shared revenues | | | 689,659 | | 689,659 |
| Unrestricted investment earnings | | | 45,234 | 312,232 | 357,466 |
| Other | | | 193,326 | 43,531 | 236,857 |
| Total general revenues, special item and transfers | | | <u>1,202,606</u> | <u>355,763</u> | <u>1,558,369</u> |
| Change in net assets | | | 172,697 | 281,801 | 454,498 |
| Net assets, beginning of year | | | <u>1,830,499</u> | <u>13,904,682</u> | <u>15,735,181</u> |
| Net assets, end of year | | | <u>\$ 2,003,196</u> | <u>\$ 14,186,483</u> | <u>\$ 16,189,679</u> |

See accompanying notes

Township of Kimball
Balance Sheet
Governmental Funds
March 31, 2006

| | General Fund | Special Revenue Funds | | Total Governmental Funds |
|--|-------------------------|------------------------------|-----------------------|---|
| | | Liquor Enforcement | Perpetual Care | |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,529,216 | \$ 16,376 | \$ 21,951 | \$ 1,567,543 |
| Accounts receivable | 76,710 | | | 76,710 |
| Due from other funds | 111,021 | | 425 | 111,446 |
| Prepaid expenses | 30,552 | | | 30,552 |
| Total assets | <u>\$ 1,747,499</u> | <u>\$ 16,376</u> | <u>\$ 22,376</u> | <u>\$ 1,786,251</u> |
| Liabilities and fund balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 40,520 | | | \$ 40,520 |
| Accrued expenses | 31,366 | 280 | | 31,646 |
| Due to other funds | 9,961 | 16,991 | | 26,952 |
| Total liabilities | <u>81,847</u> | <u>17,271</u> | <u>-</u> | <u>99,118</u> |
| Fund balances | | | | |
| Reserved - liquor enforcement | | (895) | | (895) |
| Reserved - cemetery care | | | 22,376 | 22,376 |
| Reserved - construction code authority | 49,394 | | | 49,394 |
| Unreserved and undesignated | 1,616,258 | | | 1,616,258 |
| Total fund balances | <u>1,665,652</u> | <u>(895)</u> | <u>22,376</u> | <u>1,687,133</u> |
| Total liabilities and fund balances | <u>\$ 1,747,499</u> | <u>\$ 16,376</u> | <u>\$ 22,376</u> | <u>\$ 1,786,251</u> |

Township of Kimball
Reconciliation of Fund Balances to the Statement of Net Assets
Governmental Funds
Year ended March 31, 2006

| | |
|--|---------------------|
| Fund Balance - Total Governmental Funds | \$ 1,687,133 |
|--|---------------------|

Amounts reported for governmental activities in the statement of
net assets are different because:

| | |
|---|---------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 329,560 |
|---|---------|

| | |
|--|--|
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | |
|--|--|

| | |
|----------------------|-----------------|
| Compensated absences | <u>(13,497)</u> |
|----------------------|-----------------|

| | |
|---|-----------------------------------|
| Net Assets - Governmental Activities | <u><u>\$ 2,003,196</u></u> |
|---|-----------------------------------|

Township of Kimball
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended March 31, 2006

| | General | Special Revenue | | Total Governmental Funds |
|---|---------------------|---------------------------|-----------------------|---|
| | | Liquor Enforcement | Perpetual Care | |
| Revenues | | | | |
| Property taxes | \$ 274,387 | | | \$ 274,387 |
| Licenses and permits | 267,674 | | | 267,674 |
| Intergovernmental | 685,902 | \$ 3,757 | | 689,659 |
| Charges for services | 191,845 | | | 191,845 |
| Perpetual care | | | \$ 100 | 100 |
| Interest | 44,115 | 493 | 626 | 45,234 |
| Other | 193,326 | | | 193,326 |
| Total revenues | <u>1,657,249</u> | <u>4,250</u> | <u>726</u> | <u>1,662,225</u> |
| Expenditures | | | | |
| Current | | | | |
| Legislative | 90,172 | | | 90,172 |
| General government | 368,051 | | | 368,051 |
| Public safety | 582,434 | 3,951 | | 586,385 |
| Public works | 361,718 | | | 361,718 |
| Culture and recreation | 42,445 | | | 42,445 |
| Capital outlay | 199,179 | | | 199,179 |
| Total expenditures | <u>1,643,999</u> | <u>3,951</u> | <u>-</u> | <u>1,647,950</u> |
| Excess of revenues over expenditures and net change in fund balances | 13,250 | 299 | 726 | 14,275 |
| Fund balance, beginning of year | <u>1,652,402</u> | <u>(1,194)</u> | <u>21,650</u> | <u>1,672,858</u> |
| Fund balance, end of year | <u>\$ 1,665,652</u> | <u>\$ (895)</u> | <u>\$ 22,376</u> | <u>\$ 1,687,133</u> |

See accompanying notes

Township of Kimball
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended March 31, 2006

| | |
|---|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 14,275 |
|---|------------------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

| | |
|-------------------------------------|----------------|
| Capital asset purchases capitalized | 175,917 |
| Depreciation expense | (45,845) |
| | <u>130,072</u> |

Governmental funds report debt service principal and interest as an expenditure in the current period. In the statement of activities, these amounts are not expensed.

| | |
|------------------------------------|--------|
| Principal payment on capital lease | 32,149 |
|------------------------------------|--------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|----------------------------------|----------------|
| Increase in compensated absences | <u>(3,799)</u> |
|----------------------------------|----------------|

| | |
|--|--------------------------|
| Net Change in Net Assets of Governmental Activities | <u>\$ 172,697</u> |
|--|--------------------------|

Township of Kimball
Statement of Net Assets
Proprietary Funds
March 31, 2006

| | Business Type Activities Enterprise Funds |
|---|--|
| | Water & Sewer |
| Assets | |
| Current assets | |
| Cash and equivalents | \$ 4,473,013 |
| Accounts receivable | 304,986 |
| Special assessments receivable | 3,497,037 |
| Unamortized discount on bonds - net | 61,565 |
| Total current assets | <u>8,336,601</u> |
| Capital assets | |
| Property, plant and equipment | 14,007,933 |
| Less accumulated depreciation | <u>(3,854,066)</u> |
| Net capital assets | 10,153,867 |
| Total assets | <u>18,490,468</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 193,543 |
| Accrued expenses | 4,543 |
| Accrued interest | 69,312 |
| Due to other funds | 56,587 |
| Current portion of long-term liabilities | 320,000 |
| Total current liabilities | <u>643,985</u> |
| Long-term liabilities | |
| Bonds payable | <u>3,660,000</u> |
| Total long-term liabilities | <u>3,660,000</u> |
| Total liabilities | <u>4,303,985</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 6,173,867 |
| Unrestricted | <u>8,012,616</u> |
| Total net assets | <u><u>\$ 14,186,483</u></u> |

See accompanying notes

Township of Kimball
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year ended March 31, 2006

| | Business Type Activities Enterprise Funds |
|--|--|
| | Water & Sewer |
| Operating revenues | |
| Service charges | \$ 1,591,288 |
| Penalties | 37,017 |
| Miscellaneous | 6,514 |
| Total operating revenues | <u>1,634,819</u> |
| Operating expenses | |
| Salaries | 204,009 |
| Benefits | 71,176 |
| Operating supplies | 54,689 |
| Water purchases | 456,485 |
| Sewer service cost | 311,134 |
| Professional fees | 22,418 |
| Contracted services | 14,751 |
| Insurance | 3,302 |
| Printing and publishing | 973 |
| Utilities | 11,189 |
| Gasoline and oil | 7,318 |
| Repair and maintenance | 26,555 |
| Depreciation and amortization | 282,034 |
| Settlement | 6,679 |
| Miscellaneous | 16,248 |
| Total operating expenses | <u>1,488,960</u> |
| Operating income | 145,859 |
| Non-operating revenues and (expenses) | |
| Interest income | 312,232 |
| Interest expense | (176,290) |
| Total non-operating revenue and (expenses) | <u>135,942</u> |
| Change in net assets | 281,801 |
| Net assets, beginning | 13,904,682 |
| Net assets, ending | <u><u>\$ 14,186,483</u></u> |

See accompanying notes

Township of Kimball
Statement of Cash Flows
Proprietary Funds
Year ended March 31, 2006

| | Business Type Activities Enterprise Funds |
|--|--|
| | Water & Sewer |
| Cash flows from operating activities | |
| Cash received from users | \$ 2,460,723 |
| Cash paid to employees and vendors | (1,258,759) |
| Cash received from other funds | 151,073 |
| Cash paid to other funds | (281,769) |
| Net cash flow from operating activities | <u>1,071,268</u> |
| Cash flows used by capital and related financing activities | |
| Acquisition/construction of capital assets | (21,040) |
| Payments on long-term debt | (245,000) |
| Interest paid on long-term debt | (176,290) |
| Net cash flows used by capital and related financing activities | <u>(442,330)</u> |
| Cash flows from investing activities | |
| Interest on investments | 312,232 |
| Net cash flows from investing activities | <u>312,232</u> |
| Increase in cash and cash equivalents | 941,170 |
| Cash and cash equivalents, beginning of year | 3,531,843 |
| Cash and cash equivalents, end of year | <u><u>\$ 4,473,013</u></u> |
| Classified as: | |
| Current assets | <u><u>\$ 4,473,013</u></u> |
| Reconciliation of operating income to net cash flows from operating activities | |
| Operating income | \$ 145,859 |
| Adjustments to reconcile operating loss to net cash flows from operating activities | |
| Depreciation and amortization | 282,034 |
| Increase in accounts receivable | (140,487) |
| Decrease in special assessments receivable | 801,723 |
| Decrease in accounts payable | (51,833) |
| Decrease in accrued expenses | (7,497) |
| Increase in amounts due to other funds | 41,469 |
| Net cash flow from operating activities | <u><u>\$ 1,071,268</u></u> |

See accompanying notes

Township of Kimball
Statement of Fiduciary Net Assets
March 31, 2006

| | Fiduciary Fund Types | | Total |
|---------------------------|-----------------------------|------------------------|----------------------------|
| | Trust and Agency | Current Tax | Fiduciary Funds |
| Assets | | | |
| Cash and cash equivalents | \$ 16,495 | \$ 109,434 | \$ 125,929 |
| Due from other funds | 9,976 | | 9,976 |
| Total assets | <u>26,471</u> | <u>109,434</u> | <u>135,905</u> |
| Liabilities | | | |
| Due to other funds | | 37,883 | 37,883 |
| Due to others | 26,471 | 71,551 | 98,022 |
| Total liabilities | <u>26,471</u> | <u>109,434</u> | <u>135,905</u> |
| Net assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Township of Kimball

Notes to Financial Statements

March 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Kimball (the Township) complies with accounting principles generally accepted in the United States of America. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) Opinions issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Reporting Entity

The Township of Kimball, Michigan, established in 1855, is a public corporation created under the constitution and statutes of the State of Michigan. Located in St. Clair County, the Township of Kimball covers an area of approximately 36 square miles and is one of 23 townships in St. Clair County, Michigan, each of which is a separate governmental entity. The Township operates under an elected Township Board of Officials, which consists of a Supervisor, Clerk, Treasurer and four Trustees, and provides services to its more than 8,600 residents in many areas including fire protection, water, sewer, streets, parks and recreation. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, currently GASB Statement #14, *The Financial Reporting Entity* and GASB Statement #39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the basic financial statements of the Township contain all the funds controlled by the Township's Board of Officials as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Township.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Township, the primary government, as a whole. They include all funds of the reporting entity except for fiduciary funds, which are excluded from government-wide financial statements. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Township of Kimball

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government-wide statement of net assets, the columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts: invested in capital assets, net of related debt, restricted for Construction Code Authority and unrestricted net assets.

The government-wide statement of activities demonstrates the degree to which the direct expenses (including depreciation) of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

In creating the government-wide financial statements, the Township has eliminated inter-fund transactions. This government-wide focus is more on the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

Township of Kimball

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Township reports the following major governmental funds:

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state distributions, grants and other governmental revenues.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources other than special assessments that are legally or contractually restricted to expenditures for specific purposes. The following funds are included:

- Liquor Enforcement

The Liquor Enforcement Fund is a special revenue fund that is used to record the liquor enforcement activity of the Township.

- Perpetual Care

The Perpetual Care Fund is a special revenue fund that is used to record the activity of the Township's cemetery.

The Township reports the following major proprietary fund:

Proprietary Fund

Water and Sewer Fund - The Enterprise Fund is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The following fund is included:

- Water and Sewer

Additionally, the Township reports the following fund type:

Township of Kimball

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The following funds are included:

- Current Tax Collection

The Current Tax Collection Fund is used to account for taxes collected as an agent for other governmental units.

- Trust and Agency

The Trust and Agency Fund is used to account for amounts collected as an agent and temporarily held in trust for various individuals in the normal course of Township business.

Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when susceptible to accrual (i.e. when it is, "measurable and available"). Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, except interest on long-term debt, which is recorded when paid.

Amounts reported as program revenue include: charges to customers or applicants for goods, services or privileges provided, operating grants, capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Township of Kimball

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policies and Practices

Michigan Compiled Laws, Section 129.91 authorizes the Township to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township's deposits and investment policy are in accordance with statutory authority.

Assets, Liabilities and Fund Equity

Deposits and investments – The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

Inter-fund receivables/payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities, fiduciary activities and the business-type activities are reported in the government-wide financial statements as "due from other funds" and "due to other funds."

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

Accounts receivable – The Township considers all account receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

Capital Assets – Capital Assets which include property, plant, equipment and infrastructure assets (water and sewer lines, tennis courts and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial cost of more than \$5,000 and an estimated useful life of more than one year. All property and equipment are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------------------|-------------|
| Buildings and improvements | 20-40 years |
| Furniture, equipment and software | 3-5 years |
| Vehicles | 5 years |
| Land improvements | 15 years |
| Water and sewer lines | 50 years |

Township of Kimball

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt (reported at face value) and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets.

Equity Classifications – In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors or laws and regulations of other governments or through constitutional provisions or enabling legislation.
- Unrestricted net assets – consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, designations of unreserved fund balances in the governmental funds indicate tentative plans for use of financial resources in a future period. Unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Compensated Absences

The Township allows employees to accumulate vacation or sick time from year to year within limits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Township of Kimball

Notes to Financial Statements (continued)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Construction Code Act

The Township tracks the results of building department operation in the general Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

| | | |
|---|------------------|------------------|
| Cumulative revenue over expenditures – April 1, 2005 | | \$ 26,949 |
| 2005-2006 building department activity: | | |
| Permit revenue | \$ 267,674 | |
| Expenditures | <u>(245,229)</u> | |
| Excess over revenue over expenditures | | <u>22,445</u> |
| Cumulative revenue over expenditures – March 31, 2006 | | <u>\$ 49,394</u> |

Budget Requirements, Accounting and Reporting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All annual appropriations lapse at the fiscal year end. Each fund's appropriated budget is prepared on a detailed line-item basis. The Township does not maintain a formalized encumbrance accounting system.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Supervisor submits to the Township Board, a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Township's annual board meeting to obtain taxpayer comments.

Township of Kimball

Notes to Financial Statements (continued)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

3. Prior to April 1, the budget is legally adopted by a Township Board Resolution pursuant to the uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget or in excess of the amount appropriated. Any expenditure in violation of the budgeting act is disclosed as an unfavorable variance on the budgetary comparison schedule - general and special revenue fund types. PA 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. The Supervisor is authorized to transfer budgeted amounts between line-items within an activity. However, any revisions that alter the total expenditures of any activity must be approved by the Township Board.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31.
6. Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Excess of Expenditures over Appropriations in Budgeted Funds

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the line-item level.

During the year ended March 31, 2006, the Township incurred expenditures in excess of the amounts appropriated, as follows:

| Fund | Total Appropriations | Amount of Expenditure | Budget Variance |
|--------------------|-------------------------|--------------------------|--------------------|
| General Fund: | | | |
| Legislative | \$ 70,000 | \$ 90,172 | \$ 20,172 |
| General government | 298,300 | 368,051 | 69,751 |
| Public safety | 477,000 | 548,490 | 71,490 |
| Capital outlay | 136,100 | 199,179 | 63,079 |
| Liquor Fund | 3,088 | 3,951 | 863 |

During the year ended March 31, 2006, the Township did not prepare a budget for the Perpetual Care special revenue fund.

Township of Kimball

Notes to Financial Statements (continued)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Deficit Fund Balance

A deficit fund balance of \$895 exists in the Liquor Enforcement Fund. The deficit results from expenditures over revenues incurred in current and prior years. It is expected that positive operations during the next year will provide a positive fund balance.

3. CASH AND CASH EQUIVALENT DEPOSITS – CUSTODIAL CREDIT RISK

Cash deposits and investments (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Township are in the name of the Township at two banks.

At March 31, 2006, the Township had seven depository accounts. The Township does not have a deposit policy. The book value of the Township's bank deposits, consisting of five interest bearing checking accounts and two interest bearing savings accounts were \$1,532,913. Of the bank balance, \$267,500 was covered by Federal depository insurance and \$1,364,738 was uninsured and uncollateralized; therefore, subjecting the Township to custodial credit risk. Custodial risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. However, the Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

| <u>Depository Account</u> | <u>Bank Balance</u> |
|--------------------------------|---------------------|
| Insured | \$ 267,500 |
| Uninsured and uncollateralized | <u>1,364,738</u> |
| Total | <u>\$ 1,632,238</u> |

Township of Kimball

Notes to Financial Statements (continued)

4. INVESTMENTS

At March 31, 2006, the Township had the following investments and maturities:

| | Fair Market Value | Investment Maturities (in years) | | | |
|---|----------------------|----------------------------------|-------|--------|-----------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| Deposits: | | | | | |
| Certificates of Deposit | \$ 4,633,572 | \$ 4,633,572 | | | |
| Total investments | 4,633,572 | \$ 4,633,572 | \$ - | \$ - | \$ - |
| Less investments reported as "Cash and Cash Equivalents" on the Statement of Net Assets | 4,633,572 | | | | |
| Total investments | <u>\$ -</u> | | | | |
| As reported on Statement of Net Assets | | | | | |
| Current investments | \$ - | | | | |
| Noncurrent investments | - | | | | |
| Total investments | <u>\$ -</u> | | | | |

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not specifically address interest rate risk. The Township's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk of investments. The Township's certificates of deposit are not rated; however, the Township evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

Notes to Financial Statements (continued)

4. INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Township's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for credit risk. The Township also has the following investment policies further limiting its investment choices:

- Bonds, securities and other obligations of the United States or an instrumentality of the United States where the principal and interest is fully guaranteed by the United States.
- Certificates of deposit.
- Savings accounts.
- High grade commercial paper rated at the time of purchase within the three highest grades by at least two national rating services, the term to maturity may not be more than 270 days after the date of purchase and no more than 50% of any fund may be invested in commercial paper at any time.
- Bankers' acceptances of United States banks.
- United States government or federal agency obligation repurchase agreements.
- Money market mutual funds composed of investment vehicles which are permitted under state law for direct investment.

Certificates of deposit are not rated; however, the Township evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Township's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized and so that the safety of the investments and liquidity to meet the Township's cash needs are met.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Township's policy prohibit investment in foreign currency.

Township of Kimball

Notes to Financial Statements (continued)

5. INTERFUND RECEIVABLES AND PAYABLES

The amount of the inter-fund receivables and payables is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------|--------------------|-------------------|
| General | Liquor Enforcement | \$ 16,991 |
| General | Water & Sewer | 90,675 |
| General | Current Tax | 3,355 |
| Water & Sewer | Current Tax | 34,528 |
| Trust & Agency | General | 9,536 |
| Trust & Agency | Water & Sewer | 440 |
| Perpetual Care | General | 425 |
| | Total | <u>\$ 155,950</u> |

6. PROPERTY TAXES

Property taxes are levied and become a lien on each December 1 on the taxable assessed value listed as of the prior December 31 and are due without penalty on or before February 28 for all real and business personal property located in the Township. The taxable value of the certified roll on December 31, 2005, upon which the levy for the 2006 fiscal year was based, was \$224,884,879. The collection of these taxes and remittance to the proper authority are accounted for in the Current Tax Collection Fund. Property taxes are recorded as revenue in the fiscal year beginning immediately subsequent to the tax levy date of December 1.

The tax rates assessed for the year ended March 31, 2006 to finance operations and debt was .7726 per \$1,000 valuation.

Township of Kimball

Notes to Financial Statements (continued)

7. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity of the Township's governmental activities for the year ended March 31, 2006 was as follows:

| | April 1, 2005 | Additions | Disposals | March 31, 2006 |
|---|------------------|--------------|----------------|-------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 49,500 | | | \$ 49,500 |
| Capital assets being depreciated: | | | | |
| Land improvements | 38,586 | | | 38,586 |
| Buildings and improvements | 313,020 | | | 313,020 |
| Furniture, equipment and software | 292,053 | \$ 149,488 | | 441,541 |
| Vehicles | 1,137,067 | 26,429 | \$ (24,130) | 1,139,366 |
| Subtotal | 1,780,726 | 175,917 | (24,130) | 1,932,513 |
| Less accumulated depreciation: | | | | |
| Land improvements | 1,455 | 2,572 | | 4,027 |
| Buildings and improvements | 312,013 | 310 | | 312,323 |
| Furniture, equipment and software | 211,110 | 25,895 | | 237,005 |
| Vehicles | 1,106,160 | 17,068 | (24,130) | 1,099,098 |
| Subtotal | 1,630,738 | 45,845 | (24,130) | 1,652,453 |
| Net capital assets being depreciated | 149,988 | 130,072 | - | 280,060 |
| Governmental activities capital assets – net | \$ 199,488 | \$ 130,072 | \$ - | \$ 329,560 |
| Business type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 7,000 | | | \$ 7,000 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 47,078 | | | 47,078 |
| Water and sewer lines in service | 9,920,467 | \$ 4,033,388 | | 13,953,855 |
| Water and sewer lines under construction | 4,012,348 | 21,040 | \$ (4,033,388) | - |
| Subtotal | 13,979,893 | 4,054,428 | (4,033,388) | 14,000,933 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 47,078 | | | 47,078 |
| Water and sewer lines in service | 3,529,045 | 277,943 | | 3,806,988 |
| Subtotal | 3,576,123 | 277,943 | | 3,854,066 |
| Net capital assets being depreciated | 10,403,770 | (256,903) | - | 10,146,867 |
| Business type activities capital assets – net | \$ 10,410,770 | \$ (256,903) | \$ - | \$ 10,153,867 |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--------------------------|-------------------|
| Governmental activities: | |
| Governmental activities | \$ 45,845 |
| Business type activities | 277,943 |
| Total all activities | <u>\$ 323,788</u> |

Township of Kimball

Notes to Financial Statements (continued)

8. LONG-TERM DEBT

Governmental Activities

The following is a summary of the governmental Long-term debt outstanding as of March 31, 2006:

On September 3, 1998 the Township entered into a lease with a leasing company to lease certain fire equipment for a period of seven years. The lease requires annual payments of \$33,944, including interest at 5.3566% through September 2005. At the end of the lease term the Township will receive title to the equipment. The obligation has been treated as a capital lease in the financial statements.

Business type activities

At March 31, 2006, outstanding debt consisted of the following:

| | |
|---|-----------|
| Sewer and Water Special Assessment Bonds dated March 23, 1989 to partially fund the construction of water and sewer lines. Due in installments May 1, 1990 through May 1, 2008 with interest at 6.7% to 7.5%. | \$ 45,000 |
|---|-----------|

| | |
|---|---------|
| Water Supply System Limited Tax General Obligation Bonds dated February 1, 1990 issued by St. Clair County to partially fund the construction of water lines. The Township has entered into a contract with the County, pursuant to PA 185, 1987, to pay the County amounts sufficient to cover principal and interest payments on these bonds as they become due. Due in installments May 1, 1991 through May 1, 2009 with interest at 5.9% to 7.1%. | 220,000 |
|---|---------|

| | |
|---|---------|
| Water Supply System Special Assessment Bonds dated August 1, 1991 to partially fund the construction of water lines. Due in annual installments October 1, 1993 through October 1, 2011 with interest at 5.2% to 7.10%. | 170,000 |
|---|---------|

| | |
|---|---------|
| Water Supply System Special Assessment Improvement Bonds Series B (Limited General Obligation) dated April 22, 1999 to partially fund the construction of water lines. Due in annual installments December 1, 2000 to December 1, 2018 with interest at 4.0% to 6.0%. | 260,000 |
|---|---------|

| | |
|---|---------|
| Sewer Disposal System Special Assessment Improvement Bonds Series A (Limited General Obligation) dated April 22, 1999 to partially fund the construction of sewer lines. Due in annual installments December 1, 1999 to December 1, 2018 with interest at 4.0% to 5.9%. | 675,000 |
|---|---------|

| | |
|---|-----------|
| Sewer Disposal System Special Assessment Improvement Bonds dated October 1, 2003 to partially fund the construction of sewer lines. Due in annual installments May 1, 2004 to November 1, 2023 with interest at 2.5% to 4.625%. | 2,610,000 |
|---|-----------|

| | |
|--|---------------------|
| Total long-term debt, business type activities | <u>\$ 3,980,000</u> |
|--|---------------------|

Township of Kimball

Notes to Financial Statements (continued)

8. LONG-TERM DEBT (continued)

The following is a summary of the changes in long-term debt for the year ended March 31, 2006:

Governmental Activities:

| | Balance April 1, 2005 | Increases | Decreases | Balance March 31, 2006 |
|---|--------------------------|-----------------|------------------|---------------------------|
| Compensated absences | \$ 9,698 | \$ 3,799 | | \$ 13,497 |
| Fire equipment capital lease | 32,149 | | \$ 32,149 | - |
| Total | <u>41,847</u> | <u>\$ 3,799</u> | <u>\$ 32,149</u> | <u>13,497</u> |
| Less current portion | | | | - |
| Total long-term debt, net of current portion | | | | <u>\$ 13,497</u> |

Business-type Activities:

| | Balance April 1, 2005 | Increases | Decreases | Balance March 1, 2006 |
|--|--------------------------|-----------|-------------------|--------------------------|
| Sewer and Water Special Assessment Bonds dated March 23, 1989 | \$ 60,000 | | \$ 15,000 | \$ 45,000 |
| Water Supply System Limited Tax General Obligation Bonds dated February 1, 1990 | 275,000 | | 55,000 | 220,000 |
| Water Supply System Special Assessment Bonds dated August 1, 1991 | 205,000 | | 35,000 | 170,000 |
| Water Supply System Special Assessment Improvement Bonds Series B dated April 22, 1999 | 280,000 | | 20,000 | 260,000 |
| Sewer Disposal System Special Assessment Improvement Bonds dated October 1, 2003 | 2,680,000 | | 70,000 | 2,610,000 |
| Sewer Disposal System Special Assessment Improvement Bonds Series A dated April 22, 1999 | <u>725,000</u> | | <u>50,000</u> | <u>675,000</u> |
| | <u>4,225,000</u> | | <u>\$ 245,000</u> | <u>3,980,000</u> |
| Less current portion | | | | <u>320,000</u> |
| Total Long-term debt, net of current portion | | | | <u>\$ 3,660,000</u> |

Township of Kimball

Notes to Financial Statements (continued)

8. LONG-TERM DEBT (continued)

Interest expense for the year ended March 31, 2006 was \$178,085 from all activities.

Debt service requirements

Business-Type Activities

Debt service requirements - The annual principal and interest requirements through maturity for all debts outstanding as of March 31, 2006:

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|---------------------|---------------------|---------------------|
| 2007 | 320,000 | 170,424 | 490,424 |
| 2008 | 320,000 | 156,424 | 476,424 |
| 2009 | 310,000 | 142,292 | 452,292 |
| 2010 | 295,000 | 128,961 | 423,961 |
| 2011 | 240,000 | 117,689 | 357,689 |
| 2012 | 240,000 | 107,936 | 347,936 |
| 2013 | 215,000 | 97,751 | 312,751 |
| 2014 | 215,000 | 89,090 | 304,090 |
| 2015 | 220,000 | 80,359 | 300,359 |
| 2016 | 220,000 | 71,171 | 291,171 |
| 2017 | 220,000 | 61,739 | 281,739 |
| 2018 | 220,000 | 52,161 | 272,161 |
| 2019 | 220,000 | 42,411 | 262,411 |
| 2020 | 145,000 | 32,516 | 177,516 |
| 2021 | 145,000 | 26,281 | 171,281 |
| 2022 | 145,000 | 19,901 | 164,901 |
| 2023 | 145,000 | 13,376 | 158,376 |
| 2024 | 145,000 | 6,706 | 151,706 |
| | <u>\$ 3,980,000</u> | <u>\$ 1,417,188</u> | <u>\$ 5,397,188</u> |

9. RETIREMENT PLAN

Substantially all of the full-time employees of the Township are covered by a defined contribution retirement plan. The Township makes contributions to the plan. For the year ended March 31, 2006 the Township contributed \$31,164 to the plan.

10. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township carries commercial insurance for risks to cover these losses. The Township also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Township of Kimball

Notes to Financial Statements (continued)

11. CONTINGENCIES

The Township is involved in various legal actions arising in the normal course of business. In the opinion of the Township Board, such matters will not have a material effect upon the financial position of the Township.

Required Supplemental Information

Township of Kimball
Required Supplemental Information
Budgetary Comparison Schedule - General and Special Revenue Fund Types
Year ended March 31, 2006

| | General Fund | | | Over (Under) Budget | Liquor Fund | | | Over (Under) Budget | Perpetual Care Fund | | | Over (Under) Budget |
|---|--------------------|-------------------|--------------|---------------------------|--------------------|-------------------|----------|---------------------------|---------------------|-------------------|-----------|---------------------------|
| | Original Budget | Amended Budget | Actual | | Original Budget | Amended Budget | Actual | | Original Budget | Amended Budget | Actual | |
| Revenues | | | | | | | | | | | | |
| Property taxes | \$ 265,600 | \$ 265,600 | \$ 274,387 | \$ 8,787 | | | | | | | | |
| Licenses and permits | 189,000 | 189,000 | 267,674 | 78,674 | | | | | | | | |
| Intergovernmental | 540,000 | 540,000 | 685,902 | 145,902 | \$ 3,779 | \$ 3,779 | \$ 3,757 | \$ 22 | | | | |
| Charges for services | 184,100 | 184,100 | 191,845 | 7,745 | | | | | | | \$ 100 | \$ (100) |
| Perpetual care | | | | | | | | | | | 626 | (626) |
| Interest | 20,000 | 20,000 | 44,115 | 24,115 | | | 493 | (493) | | | | |
| Other | 108,000 | 108,000 | 193,326 | 85,326 | | | | | | | | |
| Total revenues | 1,306,700 | 1,306,700 | 1,657,249 | 350,549 | 3,779 | 3,779 | 4,250 | (471) | | | 726 | (726) |
| Expenditures | | | | | | | | | | | | |
| Legislative | | | | | | | | | | | | |
| Township board | 70,000 | 70,000 | 90,172 | 20,172 | | | | | | | | |
| General government | | | | | | | | | | | | |
| Supervisor | 28,000 | 28,000 | 32,210 | 4,210 | | | | | | | | |
| Elections | - | 5,000 | 9,764 | 4,764 | | | | | | | | |
| Assessor | 44,000 | 44,000 | 54,384 | 10,384 | | | | | | | | |
| Clerk | 93,000 | 93,000 | 108,025 | 15,025 | | | | | | | | |
| Board of review | 4,000 | 4,000 | 4,270 | 270 | | | | | | | | |
| Treasurer | 72,000 | 72,000 | 82,299 | 10,299 | | | | | | | | |
| Administration building | 15,000 | 15,000 | 19,468 | 4,468 | | | | | | | | |
| Kleckner Hall | 6,000 | 6,000 | 7,629 | 1,629 | | | | | | | | |
| Smiths' Creek building | 6,300 | 6,300 | 6,118 | (182) | | | | | | | | |
| New township hall | | | 23,551 | 23,551 | | | | | | | | |
| Cemetery | 25,000 | 25,000 | 20,333 | (4,667) | | | | | | | | |
| Public safety | | | | | | | | | | | | |
| Ordinance enforcer | 20,000 | 20,000 | 14,748 | (5,252) | | | | | | | | |
| Fire protection | 220,000 | 220,000 | 253,489 | 33,489 | | | | | | | | |
| Protective inspection | 205,000 | 205,000 | 245,229 | 40,229 | | | | | | | | |
| Planning and zoning | 32,000 | 32,000 | 35,024 | 3,024 | | | | | | | | |
| Liquor enforcement | | | | | 3,088 | 3,088 | 3,951 | 863 | | | | |
| Public works | | | | | | | | | | | | |
| Department of public works | 50,000 | 50,000 | 42,063 | (7,937) | | | | | | | | |
| Drains | 17,500 | 17,500 | 7,067 | (10,433) | | | | | | | | |
| Highways and streets | 280,000 | 280,000 | 265,721 | (14,279) | | | | | | | | |
| Street lighting | 36,000 | 36,000 | 46,867 | 10,867 | | | | | | | | |
| Culture and recreation | | | | | | | | | | | | |
| Parks and recreation | 40,000 | 40,000 | 37,304 | (2,696) | | | | | | | | |
| Library | 3,700 | 3,700 | 5,141 | 1,441 | | | | | | | | |
| Capital outlay | 136,100 | 136,100 | 199,179 | 63,079 | | | | | | | | |
| Debt service | | | | | | | | | | | | |
| Principal and interest | 34,000 | 34,000 | 33,944 | (56) | | | | | | | | |
| Total expenditures | 1,437,600 | 1,442,600 | 1,643,999 | 201,399 | 3,088 | 3,088 | 3,951 | 863 | | | | |
| Excess of revenues over expenditures | (130,900) | (135,900) | 13,250 | 149,150 | 691 | 691 | 299 | (392) | | | 726 | 726 |
| Fund balance / (deficit), beginning of year | 1,652,402 | 1,652,402 | 1,652,402 | | (1,194) | (1,194) | (1,194) | | 21,650 | 21,650 | 21,650 | |
| Fund balance / (deficit), end of year | \$ 1,521,502 | \$ 1,516,502 | \$ 1,665,652 | \$ 149,150 | \$ (503) | \$ (503) | \$ (895) | \$ (392) | \$ 21,650 | \$ 21,650 | \$ 22,376 | \$ 726 |

TOWNSHIP OF KIMBALL
REPORT TO THE BOARD OF TRUSTEES
August 29, 2006



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

August 29, 2006

To the Audit Committee of the Board
Of Trustees of the Township of Kimball

In planning and performing our audit of the financial statements of the Township of Kimball (the "Township") for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Tax Collection Fund

During our audit procedures, we noted the Township did not reconcile cash receipts and cash disbursements for the Tax Collection Fund. As a result, cash collected from property taxes was not distributed to the appropriate parties on a timely manner. We recommend that the Township reconcile Tax Collection Fund receipts and disbursements on a timely manner so that timely payments are made to the appropriate parties.

Electronic Bank Activity

During our audit procedures, we noted the Township did not record electronic bank transfer activity on several large transactions. This resulted in bank account reconciliations not reflecting correct ending balances and general ledger accounts not reflecting correct receipts and disbursements. We recommend that the Township reconcile electronic transfers on a timely basis to include all Township activity in the general ledger.

Bank Reconciliations - Recording

During our prior year audit and in the current year, we noted bank reconciliations do not consistently agree with the general ledger balances and do not always have support for reconciling items. Also, we noted bank reconciliations did not have appropriate documentation of a signoff by the preparer and the Treasurer as required by the Township's Administrative Policies and Procedures. We again recommend that the bank reconciliations are initialed by the preparer and that the Treasurer initial the bank reconciliations after review as evidence of the review. We also recommend that support for all reconciling items be attached to the bank reconciliations. We further recommend that the bookkeeper agree the bank reconciliations to the general ledger on a monthly basis to ensure the proper recording of cash, and initial the bank reconciliation as evidence of that process.

General Ledger Detail

During our prior year audit and in the current year, we noted several instances in which various asset and liability account reconciliations did not agree to general ledger account balances. We made several adjusting journal entries to correct these errors. We again recommend the Township review the supporting account reconciliations on a regular basis and make corrections as needed. This will assist the Township in properly recording account activity on a regular basis.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the each of the above noted items are material weaknesses.

Also, during our audit, we noted certain other matters involving internal controls and other operational matters that are presented for your consideration. Our comments are summarized as follows:

Listing of Journal Entries

During our prior year audit and in the current year, we noted the Township does not have a detailed system to track journal entries made during the year. We again recommend the Township develop a system to list all journal entries made as well as the approval for these entries.

Recording of Due To/Due From Accounts

During our prior year audit and in the current year, we noted the Due To/Due From accounts did not reconcile between the funds. These accounts should always equal each other. We continue to suggest the bookkeeper review these accounts on a monthly basis to help identify any errors and/or prevent them from occurring. We further recommend the balances due between funds be remitted to zero out the accounts at least once each year and make it easier for Township personnel to reconcile these accounts.

Budgets

We noted that a budget was not prepared for the Perpetual Care Fund during fiscal year 2005-2006.

We recommend that a budget is prepared for the Perpetual Care Fund each year.

Retaining Support Documentation

The Township did not retain support for some bank reconciliations and other areas during transition of personnel in the Treasurers' department. We recommend the Township update its documentation retention policy and retain supporting documentation for all financial information.

Updating of Policies and Procedures

The Township does not have a current policy and procedures manual. We recommend the Township update their policies and procedures and document them in a manual. This manual should include narratives that document procedures for many accounting functions and related systems, as well as job descriptions. As a matter of continuous improvement, new policies and procedures should be documented as they are developed.

This letter does not affect our report dated August 29, 2006, on the financial statements of the Township of Kimball. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Andrews Hooper & Pavlik P.L.C.